

REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND THE COUNCIL ON EDUMBE MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the eDumbe Municipality, which comprise the statement of financial position as at 30 June 2011, the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages ... to

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2010 (Act No. 1 of 2010) (DORA), and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on the financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice No. 1111 of 2010* issued in *Government Gazette No. 33872 of 15 December 2010*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis of qualified opinion

Liabilities

7. As disclosed in note 7 of the annual financial statements, the municipality did not maintain proper records, schedules and documentation to support the completeness, valuation and obligation of value added tax (VAT) payable totalling R699 942 (2010: R2 076 607). There were no satisfactory audit procedures which I could perform to obtain reasonable assurance regarding the completeness, valuation and obligation of VAT payable.

As disclosed in note 8 of the annual financial statements, the provision for rehabilitation of the landfill site is shown as R355 170 (2010: R355 170) and provision for leave amounting is shown as R1 597 859 (2010: R1 327 076). However, the municipality could not provide sufficient appropriate audit evidence to support these provision. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the obligation, completeness and valuation of the provision for rehabilitation of the landfill site and provision for leave.

Accumulated surplus

8. The municipality could not provide sufficient appropriate audit evidence to support journal entries of R3 208 000 debited in the prior year general expenses and adjustments of R2 709 938 to the opening balance of accumulated surplus in the 2009-10 financial year. There were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that these general expenses were properly recorded. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the occurrence, completeness, accuracy, cut-off and classification of accumulated surplus of R38 252 674 (2010: R25 554 965).

The municipality could not provide sufficient appropriate audit evidence to support the amounts for fines totalling R364 560 in the 2009-10 financial year. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the occurrence, completeness and accuracy of the corresponding figure for fines.

Opinion

9. In my opinion, except for the possible effects of the matters described in the Basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the eDumbe Municipality as at 30 June 2011 and its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of the MFMA and DORA.

Emphasis of matters

I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

10. As disclosed in note 37 to the financial statements, the corresponding figures for 30 June 2010 have been restated as a result of an error discovered during the 2010-11 financial year

in the financial statements of the eDumbe Municipality at, and for the year ended, 30 June 2010.

Going concern

11. As disclosed in note 32 to the financial statements of the eDumbe Municipality, there are conditions that indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern.

Irregular expenditure

12. As disclosed in note 31.3 to the financial statements, irregular expenditure to the amount of R12 904 954 was incurred because a proper procurement process was not followed.

Fruitless and wasteful expenditure

13. As disclosed in note 31.2 to the financial statements, fruitless and wasteful expenditure to the amount of R359 872 was incurred as a result of interest on overdue accounts and payment to an employee on suspension.

Unauthorised expenditure

14. As disclosed in note 31.1 to the financial statements, unauthorised expenditure to the amount of R4 877 698 was incurred as a result of actual expenditure exceeding the budget for other own expenditure.

Material losses

15. As disclosed in note 20 to the financial statements, material losses amounting to R1 272 752 were incurred as a result of electricity distribution losses.

Other matters

I draw attention to the matters below. My opinion is not modified in respect of these matters.

Material inconsistencies in other information included in the annual report

16. I have not obtained the other information included in the annual report for my review and therefore have been unable to identify any material inconsistencies with the financial statements.

Unaudited supplementary schedules

17. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the PAA and in terms of *General Notice No. 1111 of 2010*, issued in *Government Gazette No. 33872 of 15 December 2010*, I include below my findings on the annual performance report as set out on pages ... to ... and material non-compliance with laws and regulations applicable to the municipality.

Predetermined objectives

18. I was unable to conduct the audit of performance against predetermined objectives as the municipality did not submit the annual performance report as required by part C of *General Notice No. 1111 of 2010*, issued in *Government Gazette No. 33872 of 15 December 2010*.

Compliance with laws and regulations

Strategic planning, performance management and annual reports

19. The municipality did not implement a framework that describes and represents how the municipality's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted, organised and managed, including determining the roles of the different role players as required by sections 38, 39, 40 and 41 of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA) and Municipal Planning and Performance Management Regulations 7 and 8.

Annual financial statements, performance and annual reports

20. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of capital assets, current assets, liabilities, revenue, expenditure and disclosure items identified by the auditors were subsequently corrected, but the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion.
21. The performance report for the financial year under review was not prepared as required by section 46 of the MSA and section 121(3)(c) of the MFMA.

Audit committees

22. There was no audit committee in place as required by section 166(1) of the MFMA.

Internal audit

23. The municipality did not have an internal audit unit in place as required by section 165(1) of the MFMA.

Procurement and contract management

24. Awards were made to providers who are persons in the service of other state institutions, in contravention of the requirements of Supply Chain Management (SCM) regulation 44.
25. Goods and services with a transaction value of between R10 000 and R200 000 were not procured by means of obtaining written price quotations from at least three different prospective providers as per the requirements of SCM regulation 17(a) & (c).
26. Goods and services of a transaction value above R200 000 were not procured by means of inviting competitive bids as per the requirements of SCM regulation 19(a) and 36(1).
27. Bids were not always evaluated by the bid evaluation committees as per requirements of SCM regulation 28(2).

Expenditure management

28. The accounting officer did not take effective and appropriate steps to prevent unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure, as per the requirements of section 62(1)(d) of the MFMA.
29. Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the MFMA.

INTERNAL CONTROL

30. In terms of *General Notice No. 1111 of 2010*, issued in *Government Gazette No. 33872 of 15 December 2010*, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

31. The accounting officer did not adequately exercise oversight responsibility over compliance with MFMA and the supply chain management processes. In addition, accounting officer did not ensure that the reporting requirements on predetermined objectives are adhered to, as required by MSA.

Financial and performance management

32. The accounting officer has not developed processes to ensure that all requirements of laws and regulations are complied with timeously.
33. The chief financial officer did not adequately review the financial statements before submission for audit.
34. The accounting officer has not developed, implemented and monitored the necessary controls to ensure that all the processes relating to financial and performance management are adhered to at all times.
35. The chief financial officer did not implement controls over daily and monthly processing and reconciling of transactions.

Governance

36. The accounting officer has not developed processes to ensure that all requirements of laws and regulations are complied with timeously, including establishing an audit committee and internal audit unit.

INVESTIGATIONS

37. Investigations are in progress and involve one employee who was charged and suspended for suspected fraud and corruption, and three employees charged without suspension for financial misconduct and maladministration.

Auditor-General

Pietermaritzburg

04 May 2012



AUDITOR - GENERAL
SOUTH AFRICA

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